

**Total
Executive Compensation
Study**

MARCH 1982

Thomas R. Conlon & Associates

Personnel Management Consultants

93 PINE STREET

DEER PARK, L. I., N. Y. 11729

(516) 586-6411

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P R E F A C E

Based on 295 companies that participated in our survey, we are presenting a special study on total executive compensation.

In the past fifteen years we have seen some drastic changes in our tax laws which have significantly changed our approaches to both short and long term executive compensation. Rather than assume a premise and reason to a conclusion, we have objectively gathered data on what is currently being done with respect to total executive compensation plans and practices. The resulting special study is intended to present an in depth analysis of what is actually being done and allow the facts to speak for themselves. There is no universally acceptable method of executive compensation. We are presenting a variety of alternatives and considerations. The most important management decision to be made is the level of total compensation that will be competitive and the most motivational mix of that total compensation. It is our purpose to provide you with a frame of reference to reach valid conclusions.

We have done an extensive analysis of executive compensation plans and practices. By far, the largest category surveyed was industrial companies, (274 companies).

In addition, we have analyzed executive compensation plans and practices in 21 non-industrial companies in the Banking, Insurance and Financial Services fields to determine whether there were any significant differences in the mix and approach to total compensation. Naturally, the number of companies reporting executive compensation plans and practices is much smaller and they do use different measurements of corporate size. Industrial companies use sales volume while Banking, Insurance and Financial Services use total assets. The basic approach to executive compensation plans utilized by non-industrial companies does not significantly vary from that of industrial companies.

SECTION I

CORPORATE PERFORMANCE VARIABLES THAT INFLUENCE EXECUTIVE
COMPENSATION PLAN DESIGN

Corporate Performance Variables That Influence Executive Compensation
Plan Design

.Size

Industrial Companies*

For purposes of executive compensation, sales volume is the most valid indicator of corporate size for industrial companies. There is a strong relationship between wide fluctuations in sales volume and executive compensation. However, a close look at this relationship highlights the fact that executive salaries increase at a decreasing rate in relationship to significant increases in sales volume. Please note the relationship between sales volume and executive salaries outlined below, utilizing the Chief Executive Officer salary at each sales volume level:

<u>Sales Volume</u>	<u>Executive Base Salary</u>
\$8,000,000,000	\$450,000
\$4,000,000,000	\$340,000
\$1,100,000,000	\$260,000
\$ 300,000,000	\$200,000
\$ 30,000,000	\$ 90,000

Banks, Insurance and Financial Services Companies*

For purposes of executive compensation, total assets is the most valid indicator of corporate size for banks, insurance and financial services companies. There is a strong relationship between wide swings in total assets and executive compensation. However, again, we must conclude that looking at the order of magnitude, executive salaries also increase at a decreasing rate in relationship to significant increases in total assets. Please note the relationship between total assets and executive salaries outlined below utilizing the Chief Executive Officer salary at each total asset level:

Total AssetsExecutive Base Salary

\$40,000,000,000	\$485,000
\$15,000,000,000	\$325,000
\$ 5,000,000,000	\$250,000
\$ 2,100,000,000	\$150,000

* Since size is measured by different yardsticks in both corporate categories presented above, we believe it necessary to separate both quantifiable measures of size. In fact, although utilities should have been broken out into another category, there were only four utility companies participating in the survey and that was considered to be insufficient data for a separate category.

.Profits

Unfortunately, there is no direct relationship between corporate profits and corporate size. It is a corporate performance variable which has unique application to each company. Corporate profits are the ultimate indicator of corporate performance. Please note the lack of relationship between corporate size and corporate pre-tax profits shown below:

<u>Sales Volume</u>	<u>Corporate Profits</u>	<u>% of Sales</u>
\$8,000,000,000	\$402,600,000	5.0%
\$4,000,000,000	\$ 52,400,000	1.3%
\$1,100,000,000	\$ 41,200,000	3.7%
\$ 300,000,000	\$ 12,900,000	4.3%
\$ 30,000,000	\$ 1,104,000	3.7%

<u>Total Assets</u>	<u>Corporate Profits</u>	<u>% of Sales</u>
\$40,000,000,000	*	*
\$15,000,000,000	\$76,200,000	5.0%
\$ 5,000,000,000	\$34,460,000	6.9%

* insufficient data reported

The above data indicates that the improvement of profits is the true criterion for economic growth. Thus, we see the continuing evolution of a "quid pro quo" approach to executive compensation. Its' philosophy seems to be that additional compensation will be paid for measurable contribution to additional profits. Intensive effort is being expended towards quantifying the measurement of individual contribution to additional profits. The results are becoming more and more apparent in the last decade.

.Incentive Set Asides

Many companies identify certain corporate performances variables whose improvement would in turn improve the overall profitability of the corporation. Incentive set asides establish a certain floor reflected by a percentage or dollar amount of a corporate performance variable which must be exceeded before an incentive fund can begin to be generated. Set asides are intended to assure a reasonable return to the corporation and/or its stockholders prior to the generation of an incentive compensation fund. The fund formulae page (12) give an excellent understanding of the type of set asides employed. They range from a basic set aside of profits to set asides against assets, net worth, capital invested, etc., which must be exceeded before a fund can be generated after an additional profit set aside level.

Comment

It is important to recognize that although there is a significant difference in the quantifiable measure of size as previously outlined, there is an absence of substantial difference in basic approach to total executive compensation. Thus, the measurement of size is the only differential that we consider appropriate to indicate. All other variables of total executive compensation are an expression of dissimilar individual compensation philosophy limited again by the actual alternatives available.

Whenever size is a significant variable in data analysis, you will note that we do break out its measurement in our study.

SECTION II

TYPES OF EXECUTIVE COMPENSATION PLANS REPORTED

TYPES OF EXECUTIVE COMPENSATION PLANS REPORTED

- .Annual Executive Incentive Plan
- .Annual Executive Bonus Plan
- .Annual Executive Profit Sharing Plan
- .Phantom Stock Bonus Plan
- .Restricted Stock Option Plan
- .Restricted Stock Bonus Plan
- .Non-Qualified Stock Option Plan
- .Stock Appreciation Rights
- .Executive Stock Purchase Plan
- .Dividend Equivalent Plan
- .Performance Share Plan
- .Performance Unit Plan
- .Incentive Stock Options

SECTION III

EXECUTIVE INCENTIVE COMPENSATION

.Eligibility

There were, among the 100 companies providing eligibility data, three major sources of eligibility for executive compensation.

1. Salary Grade - 55 cos. use it as their major source of eligibility.

The mid-points of salary grades range from \$20,000 to \$67,500 with an unweighted average of \$49,500.

2. Organization Level - 30 cos. use it as their major source of eligibility.

15 cos. - Executive position - direct P & L responsibility or significant staff position as defined by the respective compensation committee.

8 cos. - V.P. and officer level.

4 cos. - Officers of parent and subsidiaries and selected key management.

1 co. - Officers, key executives and discretionary selections.

1 co. - Dept. manager level.

1 co. - All exempt employees.

3. Salary - 15 cos. use it as their major source of eligibility.

Minimum salaries range from \$25,000 to \$100,000 with an unweighted average of \$52,500 as an eligibility standard.

Eligible Employees

The number of eligible employees reported ranged from 19 to 975 with an average of 168.

Employees Receiving Payment

The number of employees receiving incentive bonus payment in the reporting companies ranged from a low of 18 to a high of 925 with an average of 128. Thus, 76.2% of those eligible actually received payment. This represents 3.1% of total exempt employees and 0.2% of total employees.

Total Incentive Bonus Fund Generated

The total fund generated would range from approximately \$52,800 to \$22,400,000 with an average of \$3,360,436.

Was the Total Incentive Bonus Fund Paid Out?

102 companies - Yes

56 companies - No

Amount of Incentive Bonus Fund Paid Out

The total fund paid out ranged from \$52,800 to \$15,600,000 with an average payment of \$2,455,204. Thus 73.1% of the total fund generated was actually paid out.

Must the total Fund
be awarded in the current year

88 companies - Yes

34 companies - No

If no, can surplus be carried
forward to future year

19 companies - Yes

12 companies - No

3 companies - Option of
the Board

.METHODS OF GENERATING EXECUTIVE COMPENSATION FUNDS

FUND FORMULAE

PRE-TAX PROFITS

1. Straight Percentage of Pre-Tax profits

Examples:

- 4% of pre-tax earnings
- 6% of pre-tax earnings

2. Percentage payout in excess of set aside

Examples:

- . 6% of pre-tax profits between \$40,000,000 and \$45,000,000.
- . 10% of pre-tax earnings in excess of 12% of net worth.
- . 7% of pre-tax profit in excess of 14% of stockholders equity.
- . 4% of pre-tax profit less 10% of adjusted net income.
- . 1% point for each \$100M of pre-tax earnings in excess of 15% of net worth for top category of participation (CEO). Second category (Sr.V.P.'s) receive 9/10 of 1 percentage point, etc., for each remaining category - maximum of 10 categories of participation.

AFTER TAX PROFITS

1. Straight Percentage of After-Tax earnings

Examples:

- 6% of net earnings
- 10% of consolidated net earnings

2. Percentage payout in excess of set aside

Examples:

- . 15% of net profits in excess of 5% of capital employed, not to exceed 25% of dividends.
- . 80% of consolidated net-profits after deducting 5% of consolidated net worth.
- . 10% of net profits after 6% set aside on Return on Investment (ROI).
- . 10% of the excess of net earnings over 5% of the capital invested.
- . 8% of earnings in excess of 6% of net earnings.
- . Actual EPS* growth over four year cycle. Cumulative EPS targets are established. Performance Unit Awards are based on actual attainment of EPS against these targets.

* Earnings Per Share

.METHODS OF ALLOCATING INDIVIDUAL AWARDS

Determination of Individual Award

- 40 companies - discretionary
- 54 companies - formula
- 6 companies - performance appraisal

Individual Award Formula Examples

.Individual awards are determined by group/division management. Amount of maximum bonus is determined by position (Example: 50% Directors, 75% V.P.'s, 100% Corporate and Division top management). Individual attainment of goals is considered.

.Fund for each operating unit based on performance to goals. Individual awards are distributed as a percentage of base salary in relation to individual performance rating. Top management adjusts on discretionary basis.

.Based on corporate performance and major operating unit performance with a percentage range applicable by salary grade related to performance appraisal. The percentage is applied to base salary.

.Award category percentage applied against annual base salary of each participant to determine individual award. (Note: Incentive payment awarded quarterly at completion of fiscal quarter results).

.Evaluation of performance of company and performance of individual vis a vis established quantitative and qualitative goals.

.Funds generated by formula are distributed to key individuals in proportion to their perceived contribution to sales, profit and asset utilization.

.Individual performance combined with operating unit performance yields a factor which when multiplied by individual salary equals incentive points. These are multiplied by an incentive point value which varies from year to year.

.Management makes awards to those who performed in an exceptional manner, based on quantitative performance appraisals in relation to individual goals.

$$\frac{\text{Actual EPS} - \text{Min. EPS}}{\text{Max. EPS} - \text{Min. EPS}} \times \text{Dollar Value of Unit} = \text{Award; EPS is cumulative over 4 year period.}$$

Lowest Award

The lowest award payments ranged from \$250 to \$10,000 and with an unweighted average of \$4,931.

Average Award

The average awards paid by companies range from \$6,300 to \$37,700 with an unweighted average of \$18,190.

Highest Award

The highest award payments range from \$39,100 to \$280,000 with an unweighted average of \$112,808.

Maximum Limitation on Size of the Award

86 companies - none

14 companies - Yes

Limitations:

1 company - Two times salary

1 company - 60% of salary

3 companies - 150% of salary

1 company - 40%, 45%, 50%
depending on grade

5 companies - 100% of salary

1 company - not more than 10% to
one employee or more
than 50% to the 10
highest receiving
awards

1 company - 75% officers and
50% non-officers

Plan Period

19 companies - Calendar Year

14 companies - Fiscal Year

Method of Individual Payment

90 companies - cash

10 companies - varied

Examples: 6 companies - cash and stock

1 company - cash or phantom
stock

1 company - cash - current
stock - deferred

1 company - cash 30% stock 70%

1 company - cash and stock (up to
50% stock)

If there is a deferred payment provision, is it mandatory or discretionary?

7 companies - mandatory

15 companies - discretionary

Duration of deferred period

Mandatory - 1 company - retirement

2 companies - 5 years

2 companies - 3 years

1 company - 1 year

1 company - 1/3 immediately; 1/3 six months; 1/3 in one year

Discretionary - 6 companies - retirement

4 companies - option of individual

1 company - 10 years

1 company - 6 years or more

1 company - cash 5 years

1 company - stock 5 years, cash 10 years

1 company - stock, retirement or termination

Summarization of the Key Elements Utilized in Generating an Executive Incentive Compensation Plan

The key elements utilized (assuming an adequate profit base) in generating the Incentive fund are:

.Eligibility - Do those eligible make a significant and recognizable contribution to the organization?

.Fund Formula - Will it generate a fund of money related to corporate and individual performance?

.Award Formula - Does it reflect internal equity in distributing the fund?

These elements provide the foundation for design of an executive incentive compensation plan reflecting management compensation philosophy. That is, does management want to pay competitive total compensation or total compensation above or below competition? Do they want to pay a low base with high incentive to provide a higher degree of total compensation related to corporate performance? Do they want to pay at the other extreme with a high base and low incentive? The answer to these questions must be decided upon by management and their assessment of their particular business. How much risk is involved and how much total compensation should be related to that risk? The degree of risk income built into the design of an incentive plan determines the swing in total compensation allocated to future performance both individual and corporate.

.AVERAGE INCENTIVE COMPENSATION FOR SELECTED
EXECUTIVE BENCHMARK POSITIONS

Average Incentive Plan Payment For Selected Executive
Benchmark Positions

Position:

Chief Executive Officer

Industrial Companies

<u>Average Sales Volume</u>	<u>Average Base Salary</u>	<u>Average Incentive Compensation</u>	<u>Average Total Compensation</u>
\$ 1.9 Bil.	\$225,724	\$136,527	\$392,251

Incentive Compensation
As a % of Base Salary 53.4%

Banking, Insurance and Financial Services

<u>Average Assets</u>	<u>Average Base Salary</u>	<u>Average Incentive Compensation</u>	<u>Average Total Compensation</u>
\$12.3 Bil.	\$301,250	\$ 87,000	\$388,256

Incentive Compensation
As a % of Base Salary 28.9%

Average Incentive Plan Payment For Selected Executive
Benchmark Positions

Position:

Chief Operating Officer

Industrial Companies

<u>Average Sales Volume</u>	<u>Average Base Salary</u>	<u>Average Incentive Compensation</u>	<u>Average Total Compensation</u>
\$ 2.3 Bil.	\$171,500	\$ 77,404	\$248,904

Incentive Compensation
As a % of Base Salary 45.1%

Banking, Insurance and Financial Services

<u>Average Assets</u>	<u>Average Base Salary</u>	<u>Average Incentive Compensation</u>	<u>Average Total Compensation</u>
\$10.1 Bil.	\$215,000	\$ 80,500	\$295,500

Incentive Compensation
As a % of Base Salary 37.4%

Average Incentive Plan Payment For Selected Executive
Benchmark Positions

Position:

Executive Vice President

Industrial Companies

<u>Average Sales Volume</u>	<u>Average Base Salary</u>	<u>Average Incentive Compensation</u>	<u>Average Total Compensation</u>
\$ 1.7 Bil.	\$142,600	\$ 48,709	\$190,709

Incentive Compensation
As a % of Base Salary 34.2%

Banking, Insurance and Financial Services

<u>Average Assets</u>	<u>Average Base Salary</u>	<u>Average Incentive Compensation</u>	<u>Average Total Compensation</u>
\$12.3 Bil.	\$144,467	\$ 35,033	\$179,500

Incentive Compensation
As a % of Base Salary 24.3%

Average Incentive Plan Payment For Selected Executive
Benchmark Positions

Position:

Senior Vice President

Industrial Companies

<u>Average Sales Volume</u>	<u>Average Base Salary</u>	<u>Average Incentive Compensation</u>	<u>Average Total Compensation</u>
\$825 Mil.	\$102,400	\$ 23,880	\$126,280

Incentive Compensation
As a % of Base Salary 23.3%

Banking, Insurance and Financial Services

<u>Average Assets</u>	<u>Average Base Salary</u>	<u>Average Incentive Compensation</u>	<u>Average Total Compensation</u>
\$10.4 Bil.	\$ 85,948	\$ 16,115	\$102,063

Incentive Compensation
As a % of Base Salary 18.7%

Average Incentive Plan Payment For Selected Executive
Benchmark Positions

Position:

Division Vice President

Industrial Companies

<u>Average Sales Volume</u>	<u>Average Base Salary</u>	<u>Average Incentive Compensation</u>	<u>Average Total Compensation</u>
\$160 Mil.	\$ 99,800	\$ 19,124	\$118,924

Incentive Compensation
As a % of Base Salary 19.2%

Banking, Insurance and Financial Services

<u>Average Assets</u>	<u>Average Base Salary</u>	<u>Average Incentive Compensation</u>	<u>Average Total Compensation</u>
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N O P O S I T I O N C O M P A R A B I L I T Y

Average Incentive Plan Payment For Selected Executive
Benchmark Positions

Position:

Vice President

Industrial Companies

<u>Average Sales Volume</u>	<u>Average Base Salary</u>	<u>Average Incentive Compensation</u>	<u>Average Total Compensation</u>
\$ 1.1 Bil.	\$ 73,700	\$ 11,160	\$ 84,860

Incentive Compensation
As a % of Base Salary 15.1%

Banking, Insurance and Financial Services

<u>Average Assets</u>	<u>Average Base Salary</u>	<u>Average Incentive Compensation</u>	<u>Average Total Compensation</u>
\$12.3 Bil.	\$ 74,188	\$ 14,053	\$ 88,241

Incentive Compensation
As a % of Base Salary 18.9%

Average Incentive Plan Payment For Selected Executive
Benchmark Positions

Position:

Lowest Level Position Eligible *

Industrial Companies

* Most commonly reported positions were Division Controller and
Product Line Marketing Managers

<u>Average Sales Volume</u>	<u>Average Base Salary</u>	<u>Average Incentive Compensation</u>	<u>Average Total Compensation</u>
\$31 M11.	\$ 48,000	\$ 5,135	\$ 53,135

Incentive Compensation
As a % of Base Salary 10.7%

Banking, Insurance and Financial Services

* Assistant Vice President Level

<u>Average Assets</u>	<u>Average Base Salary</u>	<u>Average Incentive Compensation</u>	<u>Average Total Compensation</u>
N/A	\$ 47,000	\$ 2,354	\$ 49,354

Incentive Compensation
As a % of Base Salary 5%

SECTION IV
EXECUTIVE STOCK OPTIONS

Eligibility for Grants

Salary Grade - 55 companies use it as their major source of eligibility.

The mid-points of salary grades range from \$40,000 to \$67,500 with an unweighted average of \$49,509.

Organization Level - 30 companies use it as their major source of eligibility.

The minimum standards range from the President and his immediate staff to department Manager and above.

Salary - 15 companies use it as their major source of eligibility.

The minimum salary eligibility level used is \$40,000.

Discretionary - 5 companies establish eligibility in this manner.

Stock Option Considerations

Waiting Period From the Date of Grant Before Any Portion of the Option Can Be Granted

96 companies - Yes

39 companies - No

Waiting Period

82 companies - 1 year

10 companies - 6 months

4 companies - 3 years

Plan Provisions For Option Grants in Installments

82 companies - Yes

44 companies - No

Installment Examples

3 companies - 1/3 after 1st year and 1/3 after 2nd year and 1/3 after 3rd year

50 companies - 25% per year

29 companies - 20% per year

Time or Other Restriction on Exercise Provisions for:

Death - 16 companies - 1 Year; 60 companies - 3 Years;
4 companies - 2 Years; 3 companies - 9 months;
4 companies - 42 months; 31 companies - 3 months;
2 companies - none;

Retirement - 48 companies - 3 months; 34 companies - 6 months
14 companies - 1 year; 7 companies - 3 years

Voluntary Termination: 43 companies - 3 months; 9 companies - no exercise provisions; 22 companies - option cancelled;
3 companies - must exercise immediately;
1 company - must sell back at option price;

Involuntary Termination: 16 companies - 3 months; 7 companies - no exercise provisions; 5 companies - options cancelled; 4 companies - must exercise immediately; 1 company - option to keep or sell back at current market price or what they paid for it - whichever is lower.

Total Number of Shares Authorized for Option Grants Under Current Plan

The total number of shares authorized for option grants under the current plan range from a low of 200,000 to a high of 4,200,000 with an unweighted average of \$962,500.

Number of Shares Granted Under Current Plan

The number of shares granted under the current plan range from a low of 83,275 to a high of 5,384,000 reflecting a carry forward provision for unused options and an unweighted average of 1,072,668.

Number of Shares Exercised Under Current Plan

The total number of shares exercised under the current plan range from a low of 925 to a high of 1,603,411 with an unweighted average of 382,921. Thus, only 31% of the shares granted were actually exercised.

Number of Employees Considered Eligible for the Plan

The number of employees considered eligible for the plan range from a low of 14 to a high of 950 with an unweighted average of 247.

Frequency of Option Grants

- 66 companies - Annually
- 23 companies - 2 years
- 1 company - 30 months
- 4 companies - 5 years
- 31 companies - variable or discretionary

Guidelines in Determination of Value of Shares Granted

- Multiple of Base Salary - 40 companies
- Multiple of Total Compensation - 35 companies
- Discretionary - 30 companies

Other Guidelines Used

- . Individual Performance
- . Value of shares as a percent of range mid-point
- . Level of Responsibility
- . Value of award related to most recent incentive payment

Market Price at the Date of Grant

The market price at the date of grant ranged from a low of \$9.25 to a high of \$68.50 with an unweighted average of \$26.59.

Option Price at Date of Grant for Stock Options

The option price at the date of grant for stock options ranged from a low of \$9.38 to a high of \$61.13 with an unweighted average of \$22.97.

.AVERAGE STOCK OPTION ALLOCATION FOR
SELECTED EXECUTIVE BENCHMARK POSITIONS

Stock Options For
Selected Executive Benchmark Positions

Position:

Chief Executive Officer

Industrial Companies

<u>Average Sales Volume</u>	<u>Average Base Salary</u>	<u>Average # of Shares</u>	<u>Average Market Price</u>	<u>Average Option Price</u>
\$1,764 Bil.	\$258,790	6,316	\$26.59	\$22.97

Average Incremental Value (Avg. Market Price - Avg. Option Price)
for Executive Compensation Purposes \$22,864

Incremental Value as a
% of Base Salary 8.8%

Banking, Insurance and Financial Services

N O T A P P L I C A B L E

Stock Options For
Selected Executive Benchmark Positions

Position:

Chief Operations Officer

Industrial Companies

<u>Average Sales Volume</u>	<u>Average Base Salary</u>	<u>Average # of Shares</u>	<u>Average Market Price</u>	<u>Average Option Price</u>
\$1,490 Bil.	\$164,286	4,714	\$27.5	\$23.2

Average Incremental Value (Avg. Market Price - Avg. Option Price)
for Executive Compensation Purposes \$19,327

Incremental Value as a
% of Base Salary 11.8%

Banking, Insurance and Financial Services

N O T A P P L I C A B L E

Stock Options For
Selected Executive Benchmark Positions

Position:

Executive Vice President

Industrial Companies

<u>Average Sales Volume</u>	<u>Average Base Salary</u>	<u>Average # of Shares</u>	<u>Average Market Price</u>	<u>Average Option Price</u>
\$1,397 Bll.	\$144,250	3,475	\$20.25	\$20.46

Average Incremental Value (Avg. Market Price - Avg. Option Price)
for Executive Compensation Purposes \$ N/A

Incremental Value as a
% of Base Salary N/A

Banking, Insurance and Financial Services

N O T A P P L I C A B L E

Stock Options For
Selected Executive Benchmark Positions

Position:

Senior Vice President

Industrial Companies

<u>Average Sales Volume</u>	<u>Average Base Salary</u>	<u>Average # of Shares</u>	<u>Average Market Price</u>	<u>Average Option Price</u>
\$750 Mil.	\$ 96,100	2,317	\$21.4	\$19.1

Average Incremental Value (Avg. Market Price - Avg. Option Price)
for Executive Compensation Purposes \$ 5,329

Incremental Value as a
% of Base Salary 5.5%

Banking, Insurance and Financial Services

N O T A P P L I C A B L E

Stock Options For
Selected Executive Benchmark Positions

Position:

Division Vice President

Industrial Companies

<u>Average Sales Volume</u>	<u>Average Base Salary</u>	<u>Average # of Shares</u>	<u>Average Market Price</u>	<u>Average Option Price</u>
\$170.3 Mil.	\$ 97.9	1,562	\$16.75	\$16.75

Average Incremental Value (Avg. Market Price - Avg. Option Price)
for Executive Compensation Purposes \$ N/A

Incremental Value as a
% of Base Salary N/A

Banking, Insurance and Financial Services

N O T A P P L I C A B L E

Stock Options For
Selected Executive Benchmark Positions

Position:

Vice President

Industrial Companies

<u>Average Sales Volume</u>	<u>Average Base Salary</u>	<u>Average # of Shares</u>	<u>Average Market Price</u>	<u>Average Option Price</u>
\$965 Mil.	\$ 65,600	1,357	\$29.5	\$26.3

Average Incremental Value (Avg. Market Price - Avg. Option Price)
for Executive Compensation Purposes \$4,342

Incremental Value as a
% of Base Salary 6.6%

Banking, Insurance and Financial Services

N O T A P P L I C A B L E

Stock Options For
Selected Executive Benchmark Positions

Position:

Lowest Level Position Eligible*

Industrial Companies

* Most Commonly Reported Positions were Division Controllers and
Product Line Marketing Manager

<u>Average</u> <u>Sales Volume</u>	<u>Average</u> <u>Base Salary</u>	<u>Average</u> <u># of Shares</u>	<u>Average</u> <u>Market Price</u>	<u>Average</u> <u>Option Price</u>
\$ 31 Mil.	\$ 43,500	463	\$35.2	\$31.7

Average Incremental Value (Avg. Market Price - Avg. Option Price)
for Executive Compensation Purposes \$1,621

Incremental Value as a
% of Base Salary 3.7%

Banking, Insurance and Financial Services

N O T A P P L I C A B L E

SECTION V
EXECUTIVE PERQUISITES

.AVERAGE COST AND ELIGIBILITY FOR
INDIVIDUAL PERQUISITES

Company Owned or Leased
Car For Personal Use

Providing Executives with the use of a company owned or leased car is a common perquisite with 70.2% of the 181 participants providing the perquisite. The company cars provided by 127 participants were 84% rental cars and 16% purchased cars.

Number of Companies Providing Perquisite	127
Number of Executives Eligible	2,943
Number of Executives Receiving (83.8% of eligible executives)	2,467
Average Annualized Base Salary	\$59,941
Average Annualized Cost of Perquisite (8.3% of Average Annualized Base Salary)	\$ 4,964
Individual Cost	\$ 416

Company Eligibility:

92 companies - Organization Level - Corporate V.P. and
Top Management of Divisions Groups and
Subsidiaries.

35 companies - Discretionary

Company Paid Parking In
Metropolitan Areas

Parking in Metropolitan areas is company paid by 27 or 14.9% of the 181 participating companies.

Number of Companies Providing Perquisite	27
Number of Executives Eligible	1,426
Number of Executives Receiving (100% of eligible executives)	1,426
Average Annualized Base Salary	\$86,420
Average Annualized Cost of Perquisite (1.1% of Average Annualized Base Salary)	\$ 974
Individual Cost	\$ -0-

Company Eligibility:

14 companies - Corporate V.P. and Above at Headquarters

13 companies - Corporate V.P. and Above

Chauffered Limousine Provided
For Personal Driving

Providing executives with Chauffered Limousine Provided also for personal use is provided by 17 or 9.4% of the 181 participating companies.

Number of Companies Providing Perquisite	17
Number of Executives Eligible	86
Number of Executives Receiving (100% of eligible executives)	86
Average Annualized Base Salary	\$187,416
Average Annualized Cost of Perquisite (26.5% of Average Annualized Base Salary)	\$ 49,700
Average Individual Cost	\$ 2,450

Company Eligibility:

- 18 companies - President and Chairman
- 6 companies - Executive V.P. and Above
- 5 companies - Certain Senior V.P. and Above

Club Memberships

Company paid Club Memberships for various types of clubs such as country clubs, luncheon clubs, downtown athletic, etc., is a fairly common perquisite with 39.8% of the 181 participants providing the perquisite.

Number of Companies Providing Perquisite	72
Number of Executives Eligible	5,935
Number of Executives Receiving (65.6% of eligible executives)	3,894
Average Annualized Base Salary	\$106,297
Average Annualized Cost of Perquisite (1.5% of Average Annualized Base Salary)	\$ 1,640

Company Eligibility:

- 51 companies - Corporate Officers
- 30 companies - Corporate V.P. and Above
- 21 companies - Major Division or Major Operating Unit
Top Management and Corporate Staff Executives
- 10 companies - Discretionary

Financial Planning

Free Financial Planning services include professional advice regarding items such as investments, estate and tax planning and often included preparation of personal income tax returns.

Number of Companies Providing Perquisite	147
Number of Executives Eligible	3,822
Number of Executives Receiving (100% of eligible executives)	3,822
Average Annualized Base Salary	\$122,800
Average Annualized Cost of Perquisite (1.8% of Average Annualized Base Salary)	\$ 2,150

Company Eligibility:

- 82 companies - Corporate Officers
- 43 companies - Corporate V.P. and Above
- 22 companies - Salary Grade

Premium Payments for Non-Qualified Supplemental
Retirement Plan

Although premium payments for non-qualified supplemental retirement plans represent a significantly high cost, 5% of the 181 participating companies provide this perquisite.

Number of Companies Providing Perquisite	9
Number of Executives Eligible	23
Number of Executives Receiving (91.3% of eligible executives)	21
Average Annualized Base Salary	\$102,596
Average Annualized Cost of Perquisite (14% of Average Annualized Base Salary)	\$ 14,362

Company Eligibility:

9 companies - Corporate Officers and Key Executives
as determined by the Board of Directors.

Medical Examination

Free Medical Examination is a widespread perquisite with 59.1% of the 181 companies granting the perquisite. Unfortunately, the utilization of the perquisite leaves something to be desired.

Number of Companies Providing Perquisite	107
Number of Executives Eligible	1,789
Number of Executives Receiving (39.3% of eligible executives)	703
Average Annualized Base Salary	\$ 64,000
Average Annualized Cost of Perquisite (1.5% of Average Annualized Base Salary)	\$ 290
Individual Cost	\$ 30

Company Eligibility:

- 52 companies - Corporate Officers
- 26 companies - Corporate V.P. and Above
- 21 companies - Major Division and Major Operating Unit
Top Management and Corporate Staff Executives
- 8 companies - All Exempt Employees

Premium For Additional
Medical Insurance

The premiums for additional medical insurance are paid by 26% of the 181 participating companies.

Number of Companies Providing Perquisite	47
Number of Executives Eligible	987
Number of Executives Receiving (97.5% of eligible executives)	962
Average Annualized Base Salary	\$ 71,557
Average Annualized Cost of Perquisite (1.3% of Average Annualized Base Salary)	\$ 916

Company Eligibility:

28 companies - Corporate Officers

19 companies - Corporate V.P. and Above

Premium Payment For Additional
Life Insurance

The premium payments for additional life insurance are paid by 26.5% of the 181 participating companies.

Number of Companies Providing Perquisite	48
Number of Executives Eligible	2,164
Number of Executives Receiving (100% of eligible executives)	2,164
Average Annualized Base Salary	\$ 66,584
Average Annualized Cost of Perquisite (1.0% of Average Annualized Base Salary)	\$ 684

Company Eligibility:

- 26 companies - Corporate Officers
- 22 companies - Corporate V.P. and Above

Premium Payments for Personal Catastrophe
Liability Insurance

These premiums which protect the executive in the event of loss or individual blame, are paid by 13.8% of the 181 participating companies.

Number of Companies Providing Perquisite	25
Number of Executives Eligible	237
Number of Executives Receiving (100% of eligible executives)	237
Average Annualized Base Salary	\$ 69,765
Average Annualized Cost of Perquisite (0.75% of Average Annualized Base Salary)	\$ 526

Company Eligibility:

15 companies - Corporate Officers

10 companies - Corporate V.P. and Above

Executive Dining Facilities

Providing Executives with Dining Facilities is provided by 29 or 16% of the 181 participating companies.

Number of Companies Providing Perquisite	29
Number of Executives Eligible	657
Number of Executives Receiving (88.3% of eligible executives)	580
Average Annualized Base Salary	\$ 90,194
Average Annualized Cost of Perquisite (14.9% of Average Annualized Base Salary)	\$ 1,347

Company Eligibility:

- 10 companies - Corporate V.P. and Above
- 11 companies - Vice President and Above
- 8 companies - Asst. V.P. and Above

Vacation Allowance In Excess
Of Company Policy

Vacation Allowance in excess of company policy is a significant perquisite with 44.8% of the 181 participating companies granting the perquisite.

Number of Companies Providing Perquisite	81
Number of Executives Eligible	6,365
Number of Executives Receiving (100% of eligible executives)	6,375
Average Annualized Base Salary	\$ 69,696
Average Annualized Cost of Perquisite (13.0% of Average Annualized Base Salary)	\$ 9,061

Company Eligibility:

27 companies - Corporate Officers
38 companies - Corporate V.P. and Above
16 companies - Salary Grade

.AVERAGE COST OF PERQUISITES FOR SELECTED
EXECUTIVE BENCHMARK POSITIONS

Executive Perquisites For
Selected Executive Benchmark Positions

Position:

Chief Executive Officer

Industrial Companies

<u>Average</u> <u>Sales Volume</u>	<u>Average</u> <u>Base Salary</u>	<u>Average Annual</u> <u>Cost of Perquisite</u>	<u>Avg. Annual Perquisite</u> <u>Cost to Individuals</u>
\$295 Mil.	\$197,000	\$ 14,157	\$ 946

Avg. Annual Cost
of Perquisites \$14,157

Avg. Annual Cost
of Perquisites as a
% of Base Salary 7.2%

Avg. Annualized
Cost of Perquisites
to the Individual \$ 946

Avg. Annualized Cost
of Perquisites to the
Individual as % of
Base Salary 0.5%

Banking, Insurance and Financial Services

<u>Average</u> <u>Assets</u>	<u>Average</u> <u>Base Salary</u>	<u>Average Annual</u> <u>Cost of Perquisite</u>	<u>Avg. Annual</u> <u>Cost to Individual</u>
\$12.3 Bil.	\$301,250	\$ 44,575	\$ 1,940

Avg. Annual Cost
of Perquisites \$44,575

Avg. Annual Cost of
Perquisites as a
% of Base Salary 14.8%

Avg. Annualized
Cost of Perquisites
to the Individual \$ 1,940

Avg. Annualized Cost
of Perquisites to the
Individual as a % of
Base Salary 0.64%

Executive Perquisites For
Selected Executive Benchmark Positions

Position:

Chief Operating Officer

Industrial Companies

<u>Average Sales Volume</u>	<u>Average Base Salary</u>	<u>Average Annual Cost of Perquisite</u>	<u>Avg. Annual Perquisite Cost to Individuals</u>
\$174.2 Mil.	\$125,000	\$ 9,754	\$ 840

Avg. Annual Cost
of Perquisites \$ 9,754

Avg. Annual Cost
of Perquisites as a
% of Base Salary 7.8%

Avg. Annualized
Cost of Perquisites
to the Individual \$ 840

Avg. Annualized Cost
of Perquisites to the
Individual as % of
Base Salary 0.67%

Banking, Insurance and Financial Services

<u>Average Assets</u>	<u>Average Base Salary</u>	<u>Average Annual Cost of Perquisite</u>	<u>Avg. Annual Cost to Individual</u>
\$10.1 Bil.	\$215,000	\$ 41,000	\$ 1,800

Avg. Annual Cost
of Perquisites \$41,000

Avg. Annual Cost of
Perquisites as a
% of Base Salary 19.1%

Avg. Annualized
Cost of Perquisites
to the Individual \$ 1,800

Avg. Annualized Cost
of Perquisites to the
Individual as a % of
Base Salary 0.84%

Executive Perquisites For
Selected Executive Benchmark Positions

Position:

Executive Vice President

Industrial Companies

<u>Average Sales Volume</u>	<u>Average Base Salary</u>	<u>Average Annual Cost of Perquisite</u>	<u>Avg. Annual Perquisite Cost to Individuals</u>
\$163.0 Mil.	\$105,000	\$ 8,950	\$ 794

Avg. Annual Cost
of Perquisites \$ 8,950

Avg. Annual Cost
of Perquisites as a
% of Base Salary 8.5%

Avg. Annualized
Cost of Perquisites
to the Individual \$ 794

Avg. Annualized Cost
of Perquisites to the
Individual as % of
Base Salary 0.76%

Banking, Insurance and Financial Services

<u>Average Assets</u>	<u>Average Base Salary</u>	<u>Average Annual Cost of Perquisite</u>	<u>Avg. Annual Cost to Individual</u>
\$12.3 Bil.	\$144,467	\$ 41,000	\$ 1,800

Avg. Annual Cost
of Perquisites \$41,000

Avg. Annual Cost of
Perquisites as a
% of Base Salary 28.4%

Avg. Annualized
Cost of Perquisites
to the Individual \$ 1,800

Avg. Annualized Cost
of Perquisites to the
Individual as a % of
Base Salary 1.25%

Executive Perquisites For
Selected Executive Benchmark Positions

Position:

Senior Vice President

Industrial Companies

<u>Average Sales Volume</u>	<u>Average Base Salary</u>	<u>Average Annual Cost of Perquisite</u>	<u>Avg. Annual Perquisite Cost to Individuals</u>
\$157.0 Mil.	\$ 94,200	\$ 7,400	\$ 725

Avg. Annual Cost
of Perquisites \$ 7,400

Avg. Annual Cost
of Perquisites as a
% of Base Salary 7.9%

Avg. Annualized
Cost of Perquisites
to the Individual \$ 725

Avg. Annualized Cost
of Perquisites to the
Individual as a % of
Base Salary 0.77%

Banking, Insurance and Financial Services

<u>Average Assets</u>	<u>Average Base Salary</u>	<u>Average Annual Cost of Perquisite</u>	<u>Avg. Annual Cost to Individual</u>
\$10.4 Bil.	\$ 85,948	\$ 12,510	\$ 760

Avg. Annual Cost
of Perquisites \$12,510

Avg. Annual Cost of
Perquisites as a
% of Base Salary 14.6%

Avg. Annualized
Cost of Perquisites
to the Individual \$ 760

Avg. Annualized Cost
of Perquisites to the
Individual as a % of
Base Salary 0.88%

Executive Perquisites For
Selected Executive Benchmark Positions

Position:

Vice President

Industrial Companies

<u>Average Sales Volume</u>	<u>Average Base Salary</u>	<u>Average Annual Cost of Perquisite</u>	<u>Avg. Annual Perquisite Cost to Individuals</u>
\$126.0 Mil.	\$ 66,000	\$ 4,250	\$ 325

Avg. Annual Cost
of Perquisites \$ 4,250

Avg. Annual Cost
of Perquisites as a
% of Base Salary 6.4%

Avg. Annualized
Cost of Perquisites
to the Individual \$ 325

Avg. Annualized Cost
of Perquisites to the
Individual as a % of
Base Salary 0.5%

Banking, Insurance and Financial Services

<u>Average Assets</u>	<u>Average Base Salary</u>	<u>Average Annual Cost of Perquisite</u>	<u>Avg. Annual Cost to Individual</u>
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N O T A P P L I C A B L E

.AVERAGE SURVEY COST FOR PERQUISITES

Average Total Survey Cost for Perquisites

Average Company Sales Volume	\$187,514,800*
Average Annualized Base Salaries	\$ 44,875
Average Annualized Company Cost	\$ 9,475
Average Annualized Individual Cost	\$ 1,163
Average Number of Companies	141
Average Number of Employees Eligible	79
Average Number of Employees Receiving	38

* An important consideration is that the highest representative sales volume for Industrial Companies reporting perquisites was only \$397,000,000. It was significantly higher for Banking, Insurance and Financial Services Companies with Total Assets indicating size, but the number of these companies reporting was less than 15% of the total.

CONCLUSION

Conclusion

The approach to executive compensation for non-industrial companies, with a singular distinction in the particular company size variable used, is essentially the same with respect to the performance variables used in industrial companies. In fact the fundamental concept of incentive bonus plans and additional compensation is strikingly similar respective of whether a company is engaged in industrial or non-industrial activities. It is apparent that it is not size but management philosophy toward total compensation which is most important. Management must decide whether total compensation should be salary alone or whether it is feasible to allocate a significant portion of total compensation as risk or variable compensation. This risk or variable income should be related to a quantitative appraisal of corporate, divisional and individual performance. The ability to relate corporate, divisional and individual performance to goals is essential in making the decision as to how much of the mix of total compensation should be in the form of risk or variable income. The actual mix used by individual companies will vary greatly as a result of these fundamental management decisions.

Although size has a strong influence on compensation, it does not have a direct influence on the mix of total compensation. Management compensation philosophy and the ability to measure and evaluate corporate, divisional and individual performance, directly influences the mix of total compensation. To maximize effectiveness it is the mix of total compensation that must be addressed with respect to total executive compensation plans and practices on an individual corporate basis. What is good for a giant MBI Corporation may be extremely bad for you and conversely, what is good for the YOU Corporation may be extremely bad for an MBI.